UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT REPORT, 1995

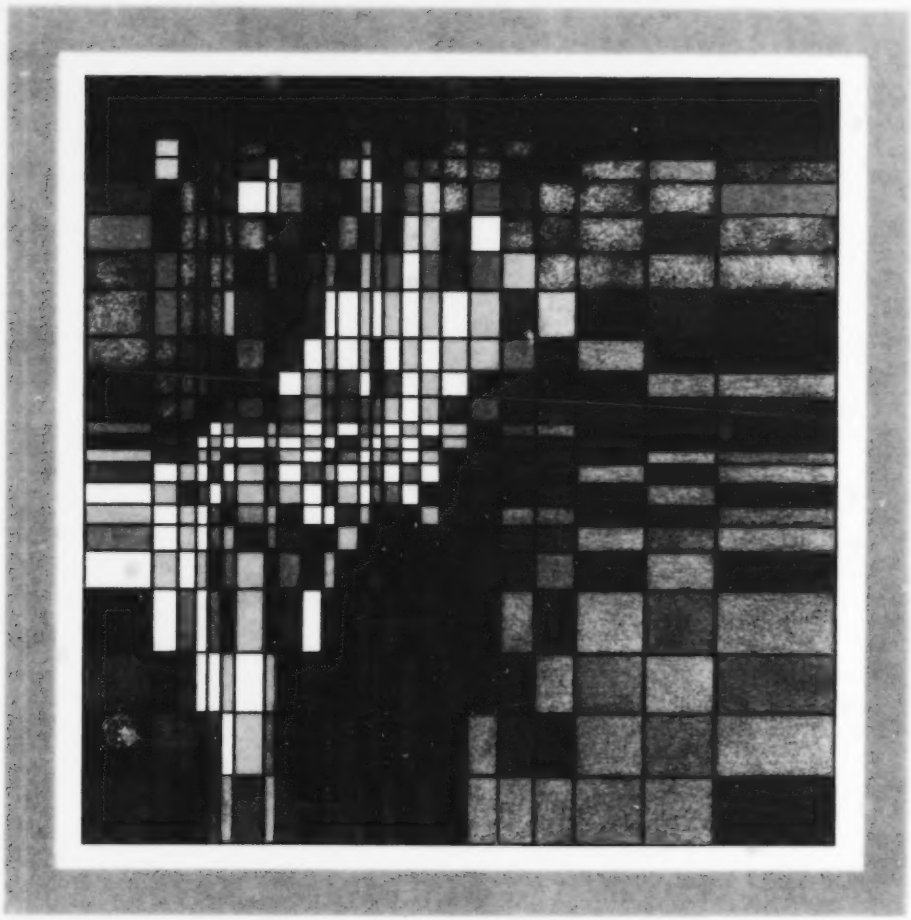
OVERVIEW

by the Secretary-General of UNCTAD

UNITED NATIONS

EMBARGO

The contents of this report must not be quoted or summarized in the press, on radio, or on television, before 0100 hours GMT on 11 September 1995.



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
GENEVA

TRADE AND DEVELOPMENT REPORT, 1995

OVERVIEW

by the Secretary-General of UNCTAD

UNITED NATIONS
New York and Geneva, 1995

Note

- Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

- The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

- Material in this publication may be freely quoted or reprinted, but acknowledgement is requested, together with a reference to the document number. A copy of the publication containing the quotation or reprint should be sent to the UNCTAD secretariat.

- The overview contained herein is also issued as part of the Trade and Development Report, 1995 (UNCTAD/TDR/15, Sales number E.95.II.D.16).

UNCTAD/TDR/15(Overview)

OVERVIEW

by the Secretary-General of UNCTAD

Global trends

The world economy has been losing steam in 1995. This year, growth in Latin America as a whole will fall from 3.7 per cent to 2 per cent - which is nearer to Africa's rate than Asia's. The developed market economies will also slow down, in part because of the cyclical deceleration in the United States, and in part because the decline of the dollar and import cuts in Latin America have weakened demand for the exports of Western Europe and Japan. However, growth in the developing countries of Asia will accelerate; and a number of countries in Central and Eastern Europe will also show continued advance. But commodity prices will on the whole be considerably below their 1994 levels.

1994 had seen a significant quickening of the tempo of world economic growth, up from 1.7 per cent in the previous year to 3.1 per cent. Most regions participated in this acceleration, particularly Western Europe, whose cyclical recovery from recession was largely responsible for the doubling of growth in the developed market economy countries. All three developing regions grew faster than in the previous year, with Asia continuing to outpace the others and Africa lagging behind; in that continent, population growth continued to outstrip income growth. China's expansion was trimmed a little while remaining extremely rapid. A number of countries in Central and Eastern Europe registered impressive advances, but many others experienced further declines.

International trade grew even faster than world output, thus helping to spread growth across the world economy. Both the United States and Western Europe received a strong impetus from exports, especially to the rest of the world, in particular developing countries in East and South-East Asia and Latin America. Intra-regional trade in these parts of the world also continued to grow rapidly. In Latin America this was in no small measure due to the region's largely consumer-driven import boom, whereas in East and South-East Asia it went alongside a relocation of production driven by foreign direct investment, much of it originating in the region. Moreover, a number of primary producers benefited from sizeable and widespread increases in non-oil commodity prices. These reflected ephemeral influences such as the cyclical upturn in world economic activity and speculative trading.

However, for many countries structural factors restraining growth performance proved stubborn. In Japan, for instance, debt deflation continued to reinforce the country's chronic underconsumption; stimulative action, once again, was too little and too late to generate a genuine recovery. In Africa, Structural Adjustment Programmes continued to bring only a modest improvement in the growth rate. Long-term development performance remains depressed by commodity dependence, poor infrastructure, over-indebtedness, low levels of domestic investment and caution by foreign investors, as well by political instability and conflicts.

External financing and debt

External financing continued to be concentrated among relatively few developing countries and economies in transition. Commercial bank lending to Africa, West Asia and Eastern Europe decreased in 1994.

The Paris Club took a significant step forward in adopting the new Naples terms, but the results fall short of expectations. The

new terms allow for a 67 per cent reduction of debt service of the poorest and most indebted countries (compared to 50 per cent under the enhanced Toronto terms) and, where the debtor is ready to exit from the process of debt rescheduling, reduction of the stock of non-concessional debt by 50 per cent or 67 per cent. The implementation of these terms has, however, been rather hesitant. The eligibility criteria have unduly restricted the number of countries benefiting from most favourable treatment. Furthermore, the budgetary, legal or policy restrictions on debt reduction faced by some creditors risk preventing the much-needed stock treatment from becoming a reality. Besides, the scope of debt eligible for reduction has been narrowed considerably. While the Naples terms may significantly reduce the debt service ratio for over half of the 33 low-income countries studied, the ratio for many others will remain too high.

One important reason is the heavy weight of multilateral debt. The debt of highly indebted low-income countries to the multilateral financing institutions warrants serious attention. These institutions have already taken some steps to provide relief, by in effect refinancing hard loans with concessional funds. The IMF and the World Bank have also adopted the "rights accumulation" approach to deal with protracted arrears. However, the measures taken have not been sufficient to resolve the problem of arrears and to prevent the multilateral debt service burden in a number of countries from increasing at a dangerous pace. Current schemes could be improved, for example by allowing interest payments on arrears and current debt service obligations to be suspended during the programme of rights accumulation. However, this would still not suffice - the main constraint is funding.

A number of constructive proposals have been made recently which are designed to provide additional multilateral debt relief without diverting development assistance from other uses or increasing the pressure on bilateral donors (many of whom are reducing their aid budgets):

- the sale of a portion of IMF gold reserves;
- a new SDR allocation, a portion of which would be used to alleviate multilateral debt;
- drawing on the reserves and loan-loss provisions of multilateral financial institutions.

Such proposals deserve urgent and sympathetic consideration.

Latin America's slowdown

The main reason for the Latin American slowdown is the reversal of capital flows. The collapse of the peso in December 1994, besides forcing Mexico into severe recession, involved a shift of sentiment regarding shares and currencies in "emerging markets". It marked the second major disruption of international financial markets in response to crisis involving a developing country's external payments and reserves (the first being in the early 1980s). The reverberations would have been even more extensive in the absence of the Mexican rescue package. As it was, external bond issues by Latin American entities virtually dried up during the first quarter of 1995, and access to the international financial markets remains limited.

In Argentina, where the currency is fixed to the dollar and the money supply to the level of foreign reserves, the "tequila effect" led to a contraction of domestic credit. This put a sudden brake on economic activity - which, in turn, damaged bank solvency. By contrast, in Brazil, the effect was felt in currency depreciation. The drying up of external credit has meant that the authorities cannot maintain price stability as they had begun to do before the outbreak of the Mexican crisis, namely by allowing the real exchange rate to appreciate and the trade balance to worsen. That country's prospects for stabilization hinge, more than ever, on fiscal reform.

The external financial turbulence that engulfed Latin America took most observers and market participants by surprise. However, readers of the *Trade and Development Report* have received repeated warnings that the surge of capital flows to Latin America was bound to peter out. The bubble could have been prevented through capital controls, which are consistent with IMF Articles of Agreement and practised by a number of highly market-oriented Latin American countries.

The basic weakness of the flow to Latin America was that, unlike that to East and South-East Asian countries (which were initially also hit by the international financial turbulence but eventually survived unscathed), it was based not on high rates of domestic savings and investment and a competitive exchange rate, but on massive privatization receipts and on liquid flows attracted by the combination of high interest rates and real currency appreciation. This allowed the inflow to generate its own momentum ("bandwagon") even though it was fuelling a consumer boom while simultaneously eroding the competitiveness of exports, thus producing huge and rising deficits on current account without a commensurate increase in productive capacity.

The dynamic described was especially marked in the case of Mexico, and once the bubble had grown sufficiently it was bound to burst. The conclusion, still denied in many quarters, is that the crisis stemmed from the economic strategy itself (which had received the blessing of the international community), rather than from a slippage. The dangers of euphoria on the part of investors were overlooked by both Mexico and its creditors - and sometimes explicitly denied on the grounds that deficits generated by private-sector borrowing and lending decisions are invariably benign. This notion, which should have been dispelled by Chile's debt crisis in the early 1980s, had been transformed into a doctrine in the United Kingdom, and then reexported to Latin America as an article of faith.

A number of Latin American countries now face another round of severe adjustment. The scale of the balance of payments correction that might be needed by the two main adjusting countries is conceivably very large: their current account deficits amount to more than 50 per cent of their exports. It may be impossible to avoid a major reduction in domestic absorption and imports, since the capacity to export has not been sufficiently enlarged in recent years: investment in tradeables has been weak ever since the debt crisis, and too much investment has gone into services and residential construction. Besides, private saving rates have tended to decline. Moreover, the simultaneous loss of capital inflows and of growth momentum will make the reconciliation of the income claims of different social groups - and hence the containment of inflation - more problematic. The maintenance of fiscal balance - one of the main achievements of the period of reform - will also be rendered more difficult. The need for import cuts by several major economies simultaneously will involve a loss of external markets for all countries in the region. Equally, their push for foreign markets may impose great strain on trade relations; indeed this has already been the case within MERCOSUR.

For adjustment to succeed in laying the basis for sustained growth in the future, it must correct three weaknesses which have been highly evident in the course of Latin America's recent recovery from debt crisis: (a) inadequate competitiveness; (b) a low rate of reinvestment of profits; and (c) insufficient investment in infrastructure. The right remedies are unlikely to be found by orienting policy towards regaining the confidence of portfolio managers; their mood swings are, in any case, extremely difficult to keep pace with. A further round of rethinking of economic policy may be required. Perhaps the right starting point is to consider how several countries in Asia have succeeded in penetrating world markets, utilizing external savings and regulating their financial systems.

Systemic risk and derivatives

A rethinking of financial policies has already begun, as regards systemic risk and derivatives. Large trading losses for several banks and the insolvency in February 1995 of Barings due to positions in futures have served as an alert regarding the risks in derivatives markets. Policy makers and financial regulators are worried above all about systemic risks and their potential for causing a crisis that would lead to a breakdown in the financial system and in its three key functions of credit allocation, payments and the pricing of financial assets. Concern as to risks in derivatives markets was one of the factors behind the call of the G-7 countries at their Halifax Summit for a strengthening of international cooperation in financial supervision to safeguard the financial system and to prevent an erosion of prudential standards.

Among the lessons to be learnt from historical instances of collapse or extreme strain in derivatives markets are the need for strong legal and institutional frameworks, including clearinghouses with adequate resources as well as arrangements for settling obligations which avoid huge rises in short-term exposure capable of impairing institutions' creditworthiness and thus endangering the payments system. Another lesson, especially important for developing countries, is that the use and trading of derivatives should be an organic extension of hedging and balance-sheet management. Artificial initiatives such as the establishment of futures and options exchanges purely to attract business to nascent financial centres are likely to lead to markets dominated by speculation that poses a threat to the entire financial sector.

Many recent initiatives regarding derivatives are directed at internal controls. While such initiatives concern firms in the first instance, ultimately they are also capable of reducing systemic risk. Prudential initiatives on the part of the European Union, the Basle Committee and others are intended to reduce or control banking and

securities risks more generally. The result of these initiatives so far is only the beginning of a harmonized regime for financial regulation, with a coverage of subjects and firms that is far from complete. While systemic risk will be reduced by improved prudential standards, it will continue to be present during periods when high volatility in asset markets endangers participants or is accompanied by major insolvencies.

Unemployment in the North

Unemployment is now a veritable scourge in the developed market economies. Open unemployment has risen sharply in the OECD countries, from an average of 3.2 per cent of the labour force in 1960-1973 to 7.3 per cent in 1980-1994. Last year, 34 million people were out of work.

The problem is not only one of the vast numbers involved. The quality of the new jobs created has on the whole been poor. In the United States, for instance, employment has grown significantly faster than in most other industrial countries, but most of the new jobs created are low-paid. As a result, a large part of the labour force has been suffering from stagnant or even declining rates of pay, and has failed to share in the growth of national income.

In many quarters, the twin problems of unemployment and low pay are being blamed on the growth of international trade and investment, especially manufactured imports from developing countries, with the main culprit being the exploitation of cheap third-world labour. The solutions typically advocated include the imposition of higher labour standards in the developing world or other barriers to imports. Others, less inclined towards protectionism, ascribe unemployment in their own country or region to a loss of competitiveness. Though not targeted at developing countries in particular, this diagnosis, too, is a recipe for trade conflict, for it

implies that unemployment at home can only be lowered at the expense of one's trading partners.

Such neomercantilist approaches, which run counter to the letter and spirit of the Uruguay Round, would prevent globalization and liberalization from yielding their benefits. While all countries would be adversely affected, the threat to the developing countries and countries in transition would be particularly serious, since their outward-oriented development strategies will only succeed if markets in developed countries are sufficiently open to accommodate rapidly increasing exports.

The idea that the rise in structural unemployment in the North, especially of unskilled workers, is largely due to North-South trade reflects the coincidence of sharply rising imports of manufactures from developing countries and high and rising rates of unemployment from the early 1970s onwards.

There can be little doubt that unskilled northern labour has been displaced on a significant scale in a number of industries, including clothing and footwear, in which developing countries have succeeded in increasing their market share. None the less, the growth of North-South trade does not provide a convincing explanation of the unemployment problem as a whole.

- The South's receipts from manufactured exports are largely spent on buying other manufactured goods from the North, thus generating jobs. However, it is true that even a balanced growth of exports and imports of manufactures could in theory result in losses of unskilled jobs in the North. The reason is that such labour, being more abundant in the South, is used more extensively in southern than in northern manufactured exports.

- The North has a considerable surplus on manufacturing trade with the South. This surplus adds to total effective demand and to the number of jobs in the North (without necessarily

reducing employment in the South). The contraction of its trade surplus was responsible for significant job destruction in the North during the late 1980s. The prime cause of that contraction was not the increase in manufactured imports but the depression of oil and other commodity prices, together with the rise in interest rates and debt crisis, which extinguished a sizeable portion of the import capacity of developing countries; balance-of-payments pressures also forced many developing countries to increase export shipments at knock-down prices. The 1990s have seen an increase in the North's trade surplus, with the import boom of Latin America, for instance, serving to generate higher demand for its export industries; however, this source of job creation has proved no less fickle than the financing that generated it.

- Even so, differences among developed countries in structural unemployment are unrelated to differences in their trade balances with developing countries; for instance, between 1970 and 1993 the country that suffered the second-largest decline in its trade balance with developing countries - Canada - had the largest increase in total manufacturing employment, whereas the country with the smallest - Italy - lost a fifth of its manufacturing jobs.

- If increased imports from the South had indeed been a major cause of unemployment of unskilled workers in the North, the corresponding increase in exports to the South should have succeeded in creating excess demand for skilled workers. However, demand for skilled workers in the North has also been weak. For example, in the United States, unemployment among men with upper secondary or higher education rose from 2.1 per cent in 1970 to 3.9 per cent in 1989, in Germany from 1.8 per cent in 1978 to 5.0 per cent in 1987, and in France from 2.6 per cent in 1979 to 4.1 per cent in 1990. True, in a number of countries the wage differential between skilled and unskilled work has widened, but this has come from lower or stagnant

wages for unskilled work, not from a jump in pay for skilled labour as a whole.

- Numerous instances can be cited of job losses in high-skill industries (e.g. chemicals) and of employment gains in low-skill sectors (e.g. rubber and plastics).

- The emergence of new competition in labour-intensive manufactured products is nothing new in economic history. In the 1950s and 1960s, for instance, the industrially most advanced countries became subject to greatly intensified competition from Italy and Japan without suffering mass unemployment; indeed, several of them experienced such a shortage of unskilled labour that they encouraged large-scale immigration. Between 1960 and 1970, the import penetration of Italy in the markets of the (then) five other EEC countries rose from 0.4 per cent to 2.4 per cent; these are roughly the same ratios as for import penetration by developing countries in the (expanded) EEC market in 1970 and 1990, covering a period twice as long.

- Not all manufactured exports from developing countries are labour-intensive; nor does their competitive advantage always derive from "cheap" or "sweatshop" labour. The developing countries that have been most successful in manufactured exports have experienced rapidly rising wages, and have upgraded the technological and skill content of their production. Some of them have themselves been losing market share in labour-intensive goods to newcomers - but without suffering unemployment as a consequence.

These considerations suggest that while the greatly increased volume of manufactured imports from developing countries has indeed caused significant job losses in certain industries, the explanation for the sharp rise in mass structural unemployment lies elsewhere. The same point applies regarding redundancies resulting from the introduction of new technology - a factor which many ana-

lysts view as more important than imports from developing countries. The real question, in both cases, is why it has been so difficult for the labour displaced to be redeployed at remunerative wages elsewhere in the economy - as in the Golden Age of the 1950s and 1960s.

One explanation - which appears to command consensus among economists and which increasingly influences the perspectives of policy makers - is that various man-made rigidities are obstructing the labour markets from bringing the demand for and supply of labour into balance. The rigidities usually cited include laws and regulations that make labour more costly for employers (such as social charges, severance pay and restrictions on job assignments and hours worked) or which prevent wages from falling (such as high unemployment benefits or minimum wages). On this view, the key to resolving the unemployment problem lies in deregulating the labour market and reducing the Welfare State.

The rationale of this approach is essentially microeconomic. It is undoubtedly true that if an individual enterprise were accorded the opportunity to operate more flexibly in the labour market, it would normally respond by expanding its work-force and output, to capture a larger share of the market for its products. But if all enterprises were accorded the same opportunity, none might choose to expand output, unless the level of aggregate demand also rose.

Labour market deregulation is not designed to produce such an increase in aggregate demand. However, it could reduce it by shifting income from wage earners, who spend a relatively high proportion of their incomes, towards profits but without stimulating additional investment out of profits. Moreover, firms might respond to increased flexibility by shedding labour, particularly if they were initially facing a squeeze on profits because of inadequate sales. If carried out on a large enough scale, this response, too, could, in turn, reduce the level of demand. Thus, while increased labour mar-

ket flexibility would certainly make it possible for firms to utilize their capital stock more efficiently, it would not by itself provide an incentive to hire or invest on a larger scale (unless, of course, it made export production more profitable, in which case it would serve simply as a device to export unemployment).

Labour markets have, in fact, become considerably more flexible over the past decade without bringing a faster pace of employment creation. The evidence suggests that employers have used that flexibility to gain competitiveness by restructuring, downsizing and labour-shedding, rather than to enlarge productive capacity and add to their labour force. However, this is not to suggest that the phenomenon of "jobless recovery" has derived from increased labour market flexibility; as will be explained below, the main factor has been the weakness of investment and growth.

Besides, labour market flexibility is no solution, even in theory, to the problem of insufficiency in the number of good jobs. Rather, flexibility has proved to be an effective way to transform open unemployment into disguised unemployment, i.e. take people off the dole into low-paying, low-productivity occupations, for instance in services. This is evident from the experience of the United Kingdom, where the labour market reforms of the 1980s have made it more akin to the United States than other Western European countries. On one estimate, some 80 per cent of the jobs created in that country between 1979 and 1987 were low-productivity and low-pay; for the United States, the figure has been put at 50 per cent.

On the other hand, countries with a highly protected agricultural sector of significant size (most notably Japan) have a considerable volume of disguised unemployment in low-productivity farm jobs. When due account is taken of cross-country differences in disguised unemployment, the developed market economies appear to have a roughly similar record as regards genuine employment creation.

A worsening performance as regards jobs over the past two decades has gone hand-in-hand with a significant slowdown in capital formation. For the OECD area, the annual growth of fixed capital formation fell from about 6 per cent in 1960-1973 to 1.1 per cent in 1973-1979 and 3.1 per cent in 1979-1990. This failure to return to previous rates of investment is to be explained not by high labour costs or low profitability of the existing capital stock, but by the macroeconomic environment.

The generally restrictive monetary policies implemented in the last two decades have shunted economies into low-growth paths in which low demand growth and low potential output growth have fed back into one another. Frequent underutilization of the existing productive capacity has made for slow capital formation. The slow growth of potential output has, in turn, provided the justification for persisting in macroeconomic policies that limit demand growth to that of potential output growth. These policies have thus created a weak economic growth dynamic, and generated an increasing imbalance between the labour force and the tools - i.e. capital - to employ labour productively.

Restrictive monetary policies and financial deregulation together have pushed up interest rates to historically high levels. In 1981-1993 the average long-term real interest rates in the United States, France, Italy and Canada were more than three times, and in the United Kingdom more than twice, the 1956-1980 level. Moreover, financial deregulation, together with the increasing tendency to gear monetary policy to monetary aggregates or price movements, has made interest rates and exchange rates more unstable. The increased volatility of key financial variables has, in turn, been reflected in the increased volatility in the components of aggregate demand such as consumption, exports and imports. In the United States, Japan, Germany and France, the increase in the volatility of real consumption expenditure from 1961-1973 to 1982-1994 ranged from 78 per cent to 167 per cent, that of real exports from 57 per

cent to 263 per cent, and of real imports from 46 per cent to 162 per cent. The uncertainty created by such volatility has served to discourage private investment in fixed assets.

In some industrialized countries, private investment has also been adversely affected by declining public investment, especially in infrastructure. In the United States, Germany and the United Kingdom general government real investment in fixed capital has risen much less than GDP since the 1970s; indeed, in 1990 in the latter two countries it was 15 per cent below the 1972 level. On one estimate, if the stock of public capital in the United States had grown at the same pace in 1966-1987 as in 1947-1965 (instead of declining by 10 percentage points) annual GDP growth in the United States would have been 1.3-1.9 percentage points higher.

The preceding discussion suggests that the solution to the employment problem lies, in the main, in raising the tempo of investment and growth. It has been estimated that if the capital stock in manufacturing in European OECD countries had grown after 1973 by a modest 1 percentage point more than was actually the case, by 1992 there would have been an extra 3.9 million jobs in manufacturing and about 4.1 million in services.

Before turning to the macroeconomic policies needed for faster growth, it needs to be emphasized that supply-side policies are also necessary, in order to ensure that expansion does not run into bottlenecks. In particular, training and skill formation will need close attention. There is also a strong case for shifting policy towards providing employment subsidies, rather than unemployment benefits. They would be a small charge on government budgets, since they would help raise output, and thus tax revenue. Moreover, they would prevent the loss of skills (and morale) that typically results from long-term unemployment, and encourage the provision of on-the-job training for people who would otherwise remain idle.

To step up investment rates, the prime need is to provide business with lower capital costs, on the one hand, and improved prospects for sales, on the other. If Governments and central banks prevent the economy from growing faster than 2.5 per cent (except temporarily during recovery from recession), firms will not be inclined to expand their capacity any faster. Consequently, output growth will be little more than what is possible utilizing productivity growth alone - inevitably leading to mounting unemployment.

The notion that a faster pace of demand expansion would only lead to faster inflation is unjustified under current economic conditions. These are crucially different from the 1970s: there is not only much greater slack and flexibility in the labour market but also greatly increased global competition. This has greatly reduced the ability of unions and enterprises to translate increased demand for labour and goods into higher wages and prices. Consequently, there is now a much closer link between wages and productivity. In the current recovery, although rates of capacity utilization have risen to historically high levels and commodity prices have recovered somewhat, inflation has continued to decline, falling below 3 per cent during 1994 in most countries; in Japan, inflation has been replaced by "price destruction". Real earnings of labour have been either falling or rising much less than productivity, and declines in unit labour costs are a general phenomenon. Price stability has been particularly remarkable in the United States, where growth has been vigorous. Productivity has been rising at rates not seen since the 1960s, thanks to an investment-driven recovery - virtually the first since the 1970s.

It cannot be emphasized enough, however, that it is not possible to eliminate unemployment simply by expanding demand. This can be achieved only over a number of years, by raising productive capacity.

Increased public sector investment in infrastructure is also essential for job creation in some countries, for the reasons already

given, as well as because it is needed to promote technological dynamism and innovation in areas such as telecommunications, computers and information processing. Such investment needs to be accompanied by more business-like budgeting. Since public investment creates productive assets, it should be separated from current spending and evaluated in much the same way as is the practice for private investment. Investment by the public sector financed by borrowing should not be treated as deficit spending, any more than investment by private firms. Any countercyclical expenditure policy should be conducted through the capital budget, and the current budget should not be allowed to run up a structural deficit. However, the capital budget should also be balanced over the long term; in other words, public investment should be self-financing.

With the exception of Japan, fiscal policy has not been used for demand management since the early 1980s. Nevertheless, almost all countries have seen their budget deficits and debt increase rapidly. Almost everywhere interest payments on government debt have become the major source of deficits. To make it possible to use fiscal policy once again for macroeconomic management, it will be necessary to tackle the overhang of public indebtedness. As explained in the *Trade and Development Report 1993*, a one-time levy on holdings of financial assets might be the best way to bring down public debt to manageable levels quickly and without subjecting the economy to a painful deflation.

Removing the debt overhang would also reduce the constraints placed by bond markets on monetary policy. However, unless monetary policy itself is reoriented towards growth and employment, little progress in accelerating growth will be possible. Monetary policy should aim at establishing low and stable interest rates, and tolerate greater variation in inflation over the cycle. The recent experience of the United States shows that swings in interest rates can seriously disturb the balance sheets of banks and other businesses, generate uncertainty, and destabilize currency and bond

markets. An ability to use fiscal policy more actively would support such a reorientation of monetary policy.

The balance of payments consequences of expanding employment in a single country also need attention. In countries that are open to trade, a considerable portion of any demand expansion will leak abroad. Floating exchange rates can reduce the leakage by putting downward pressure on the exchange rate, but this can result in imported inflation. When inflationary pressures are strong, countries will be reluctant to expand, in order to avoid devaluation. On the other hand, when, as now, deflation is a greater danger than inflation, they may be tempted to resort to devaluation. A generalized quest for devaluation might eventually produce the desirable result of a worldwide lowering of interest rates. However, the process of competitive devaluation itself might disrupt international trade and payments; and the ensuing risk and uncertainty might be more costly than the benefits of lower interest rates. Consequently, policies to increase employment need to be internationally coordinated, in order to secure low and stable interest rates and avoid exchange rate instability. The latter objective would also call for concerted currency market interventions, as well as controls on short-term capital movements.

In the absence of a strategy of tackling unemployment by "lifting all boats", Governments may find it difficult to resist political pressures in favour of protectionist "solutions", with adverse consequences for all. For instance, the imposition of trade restrictions linked to higher labour standards might seem an easy way to reduce third-world competition. The rationale for improving labour standards in the South lies in protecting workers in that region, not in saving jobs in the North.

In any event, raising southern labour costs would not go far towards saving northern labour-intensive industries. Since productivity differentials are much narrower than wage differentials, it

would worsen the terms of trade and reduce incomes in the North. Besides, the real wages of unskilled workers would fall as import prices rose. At the same time, higher labour costs would reduce employment, output and exports in the South. Poorer countries that face difficulties in exporting would be hit hardest: the major exporters of manufactures in the developing world have already industrialized, and now enjoy quite high wages and labour standards.

Similarly, trade tensions could also build up within the North. It is perhaps significant that some countries that are habitually reluctant to increase home demand on the grounds that it would be inflationary have also become increasingly willing to take policy action to promote exports - and thus aggregate demand. Moreover, events in recent months have evoked memories of the competitive devaluations of the inter-war period, with accusations that the United States is encouraging dollar depreciation and that Spain, the United Kingdom and Italy have been the unfair beneficiaries of the large exchange rate movements within Europe. The view has also been expressed that the NAFTA partners of the United States should not be permitted to engage in currency depreciations.

It would be unrealistic to expect the international trading system to evolve in the right direction, notwithstanding the Uruguay Round, unless the twin problems of unemployment and low wages in the developed market economies are tackled by increasing the prosperity of all. It is to be hoped that the international cooperation needed to obtain such an outcome will be forthcoming despite the end of the Cold War - and that international behaviour will not revert to the pattern of competition and conflict characteristic of the 1930s.

كيفية الحصول على منشورات الامم المتحدة

يمكن الحصول على منشورات الامم المتحدة من المكتبات ودور التوزيع في جميع انحاء العالم . استعلم عنها من المكتبة التي تتعامل معها أو اكتب الى : الامم المتحدة ،قسم البيع في نيويورك او في جنيف .

如何购取联合国出版物

联合国出版物在全世界各地的书店和经销处均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez-vous à : Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.

Printed in Switzerland
GE.95-52489
August 1995-8,120

United Nations publication
UNCTAD/TDR/15 (Overview)